

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 27, 2003

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 0-27026

**Pericom Semiconductor Corporation**  
(Exact Name of Registrant as Specified in Its Charter)

California  
(State or Other Jurisdiction of  
Incorporation or Organization)

77-0254621  
(I.R.S. Employer  
Identification No.)

3545 North First Street  
San Jose, California 95134  
(408) 435-0800

(Address of Principal Executive Offices and  
Issuer's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2):

Yes  No

As of February 3, 2004 the Registrant had outstanding 25,218,635 shares of Common Stock.

Pericom Semiconductor Corporation  
Form 10-Q for the Quarter Ended December 31, 2003

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PART I. FINANCIAL INFORMATION  
Item 1: Condensed Consolidated Financial Statements

Pericom Semiconductor Corporation  
Condensed Consolidated Balance Sheets  
(In thousands, except share data)  
(Unaudited)

	December 31 <u>2003</u>	June 30, <u>2003</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 11,239	\$ 9,705
Short-term investments	134,486	139,285
Accounts receivable:		
Trade (net of allowances of \$3,372, and \$3,546)	6,959	2,502
Other receivables	2,131	1,800
Inventories	12,553	9,963
Prepaid expenses and other current assets	3,766	1,301
Deferred income taxes	923	1,401
Total current assets	172,057	165,957
Property and equipment – net	6,862	6,305
Investment in and advances to joint venture	5,318	5,181
Goodwill	1,325	1,325
Deferred income taxes – noncurrent	2,312	1,085
Loans to SaRonix, LLC	---	6,703
Building held for sale	1,532	---
Intangible assets	3,248	---
Other assets	3,334	3,681
Total	\$ 195,988	\$ 190,237
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 8,894	\$ 4,170
Accrued liabilities	5,463	3,125
Current portion of long-term debt	1,349	---
Total current liabilities	15,706	7,295
Long term liabilities	281	619
Shareholders' equity:		
Common stock, 60,000,000 shares authorized;		
Shares outstanding: December 31, 26,004,304; June 30, 25,765,177	140,388	139,401
Accumulated other comprehensive income	497	1,129
Retained earnings	39,116	41,793
Total shareholders' equity	180,001	182,323
Total	\$ 195,988	\$ 190,237

See notes to condensed consolidated financial statements.

Pericom Semiconductor Corporation  
Condensed Consolidated Statements of Operations  
(Unaudited)  
(In thousands, except per share amounts)

	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Net revenues	\$16,850	\$11,132	\$27,922	\$21,960
Cost of revenues	12,262	7,852	20,116	15,412
Gross profit	<u>4,588</u>	<u>3,280</u>	<u>7,806</u>	<u>6,548</u>
Operating expenses:				
Research and development	3,987	2,800	7,197	5,718
Selling, general and administrative	4,292	2,799	6,807	5,957
Restructuring charges	784	1,431	784	1,431
Total	<u>9,063</u>	<u>7,030</u>	<u>14,788</u>	<u>13,106</u>
Loss from operations	(4,475)	(3,750)	(6,982)	(6,558)
Equity in net income (loss) of investee	68	(323)	137	(670)
Interest income	996	1,328	1,988	2,827
Other-than-temporary decline in investments	---	(1,089)	(9)	(1,141)
Loss before income taxes	(3,411)	(3,834)	(4,866)	(5,542)
Income tax benefit	(1,536)	(1,431)	(2,191)	(2,216)
Net loss	<u>(\$1,875)</u>	<u>(\$2,403)</u>	<u>(\$2,675)</u>	<u>(\$3,326)</u>
Basic and diluted loss per share	<u>(\$0.07)</u>	<u>(\$0.09)</u>	<u>(\$0.10)</u>	<u>(\$0.13)</u>
Shares used in computing basic and diluted loss per share	<u>25,928</u>	<u>25,730</u>	<u>25,872</u>	<u>25,730</u>

See notes to condensed consolidated financial statements.

Pericom Semiconductor Corporation  
Condensed Consolidated Statements of Cash Flows  
(Unaudited)  
(In thousands)

	Six Months Ended December 31,	
	<u>2003</u>	<u>2002</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	(\$ 2,675)	(\$ 3,326)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	2,262	2,026
Purchased in-process technology	360	---
Other-than-temporary decline in investment	9	1,141
(Gain) loss on sale or disposal of assets	88	(5)
Equity in net (income) loss of investee	(137)	670
Deferred income taxes	(409)	---
Changes in assets and liabilities, net of effects of purchase of SaRonix LLC:		
Accounts receivable	(1,091)	707
Inventories	464	597
Prepaid expenses and other current assets	(2,227)	(2,302)
Accounts payable	2,745	35
Accrued liabilities	(381)	1,183
Net cash provided by (used in) operating activities	<u>(992)</u>	<u>726</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Additions to property and equipment	(1,527)	(908)
Proceeds from sale of property and equipment	81	---
Purchase of short-term investments	(70,872)	(126,207)
Maturities of short-term investments	74,672	125,842
Cash received from SaRonix acquisition, net of transaction costs	349	---
Loan to SaRonix	(1,197)	(750)
Decrease (increase) in other assets	38	(1,686)
Net cash provided by (used in) investing activities	<u>1,544</u>	<u>(3,709)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Sale of common stock	987	831
Principal payments on long-term debts and capital leases	(30)	---
Repurchase of common stock	---	(1,380)
Net cash provided by (used in) financing activities	<u>957</u>	<u>(549)</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	25	---
NET DECREASE IN CASH AND CASH EQUIVALENTS	<u>1,534</u>	<u>(3,532)</u>
CASH AND CASH EQUIVALENTS:		
Beginning of period	9,705	12,656
End of period	<u>\$ 11,239</u>	<u>\$ 9,124</u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash paid during the period for:

Income taxes	<u>(\$ 6)</u>	<u>\$ 31</u>
Interest	<u>(\$ 42)</u>	<u>---</u>

SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:

Fair value of SaRonix, LLC assets acquired	\$14,053	\$ ---
Acquisition related costs	(1,731)	---
Loans forgiven	<u>(7,900)</u>	<u>---</u>
Liabilities assumed	<u>\$ 4,422</u>	<u>\$ ---</u>

See notes to condensed consolidated financial statements.

Pericom Semiconductor Corporation  
Notes To Condensed Consolidated Financial Statements  
(Unaudited)

**1. Basis of Presentation**

The financial statements have been prepared by Pericom Semiconductor Corporation (“Pericom” or the “Company”) pursuant to the rules and regulations of the Securities and Exchange Commission. In the opinion of management, these unaudited financial statements include all adjustments, consisting only of normal recurring adjustments and accruals, necessary for a fair presentation of the Company’s financial position as of December 31, 2003, the results of operations for the three and six-month periods ended December 31, 2003 and 2002 and cash flows for the six months ended December 31, 2003 and 2002. This unaudited quarterly information should be read in conjunction with the audited financial statements of Pericom and the notes thereto incorporated by reference in the Company’s Annual Report on Form 10-K as filed with the Securities and Exchange Commission.

The preparation of the interim condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the interim condensed consolidated financial statements and the reported amounts of revenue and expenses during the period. Actual amounts could differ from these estimates. The results of operations for the three and six-month periods ended December 31, 2003 are not necessarily indicative of the results to be expected for the entire year.

The Company’s fiscal periods in the accompanying financial statements have been shown as ending on June 30 and December 31. The Company’s fiscal year 2003 ended on June 28, 2003. The three and six-month periods in fiscal years 2004 and 2003 ended on December 27, 2003 and December 28, 2002, respectively, and each period included 13 and 26 weeks, respectively. Certain reclassifications have been made to conform prior year amounts to the current year’s presentation.

The Company participates in a dynamic high technology industry and believes that changes in any of the following areas could have a material adverse effect on the Company’s future financial position or results of operations: advances and trends in new technologies; competitive pressures in the form of new products or price reductions on current products; changes in the overall demand for products offered by the Company; changes in customer relationships; acquisitions and the subsequent integration of the acquired entity with the company; litigation or claims against the Company based on intellectual property, patent, product, regulatory or other factors; risks associated with changes in domestic and international economic and/or political conditions or regulations; availability of necessary components; and the Company’s ability to attract and retain employees necessary to support its growth.

These condensed consolidated financial statements include the accounts of Pericom Semiconductor Corporation and its three wholly owned subsidiaries, SaRonix, Inc., Pericom Semiconductor (HK) Limited and Pericom Taiwan Limited Corporation. SaRonix, Inc. was formed in September, 2003 to purchase substantially all the assets and related liabilities of SaRonix, LLC effective October 1, 2003. (see Note 2) All significant intercompany balances and transactions are eliminated in consolidation.

Had the Company amortized to expense the computed fair values of the awards under the 1990 Stock Option Plan, 1995 Stock Option Plan, 2001 Stock Option Plan, and 2000 Employee Stock Purchase Plan, for the three and six-month periods ended December 31, 2003 and 2002, the Company's net loss and loss per share would have been as follows (in thousands, except per share data):

	Three Months Ended December 31,		Six Months Ended December 31,	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Net loss, as reported	(\$1,875)	(\$2,403)	(\$2,675)	(\$3,326)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(1,128)	(968)	(2,328)	(2,495)
Pro forma net loss	<u>(\$3,003)</u>	<u>(\$3,371)</u>	<u>(\$5,003)</u>	<u>(\$5,821)</u>
Loss per share:				
Basic and diluted loss per share, as reported	<u>(\$0.07)</u>	<u>(\$0.09)</u>	<u>(\$0.10)</u>	<u>(\$0.13)</u>
Basic and diluted loss per share, pro forma	<u>(\$0.12)</u>	<u>(\$0.13)</u>	<u>(\$0.19)</u>	<u>(\$0.23)</u>

## 2. Business Combinations

### Acquisition of Assets of SaRonix, LLC.

On October 1, 2003 the Company, acting through its wholly-owned subsidiary SaRonix, Inc., exercised its option to acquire substantially all the assets and related liabilities of privately-held SaRonix, LLC (SaRonix). Total consideration paid was approximately \$7,900,000 in the form of the cancellation of previously advanced loans pursuant to the terms of a Secured Loan Agreement. The Company also incurred approximately \$1,731,000 in acquisition related costs, for a total purchase price of approximately \$9,631,000. SaRonix designs, manufactures and distributes industry-standard and custom frequency control products (FCP) including Crystal and Surface Acoustic Wave Oscillators, Quartz Crystals, and Timing Modules. The Company acquired SaRonix for this complementary portfolio of timing solutions.

The results of operations of SaRonix, Inc. from the date of acquisition have been included in the Company's consolidated financial statements. The assets acquired and liabilities assumed at the date of the acquisition were recorded at estimated fair values. Fair values of intangible assets acquired are based on an independent valuation prepared using estimates and assumptions provided by management. Fair value of tangible assets acquired and liabilities assumed were determined by management using estimates of current replacement cost, present value of amounts to be collected in the future, and other techniques. The purchase price has been allocated as follows (in thousands):

Current assets	\$ 6,836
Property and equipment	1,109
Building held for sale	1,532
Other assets	616
Other intangible assets subject to amortization	
Customer backlog	320
Core developed technology	1,280
In-process research and development	360
Supplier relationship	970
Trade name	1,030
	<hr/>
Total assets acquired	14,053
Current liabilities	(4,422)
	<hr/>
Total liabilities assumed	(4,422)
	<hr/>
Net assets acquired	<u>\$9,631</u>

The Company amortized customer backlog over the three months ended December 31, 2003. Supplier relationship and trade name will not be amortized, but will be reviewed at least annually for impairment. Core developed technology will be amortized over its estimated useful life of ten years. Amortization expense for the three months ended December 31, 2003 was \$32,000. Amortization for the remainder of fiscal 2004 will be approximately \$64,000, and amortization for each fiscal year through 2012 will be \$128,000 per year and amortization for 2013 will be \$32,000.

Approximately \$360,000 of the purchase price was allocated to the estimated fair value of in-process research and development projects. At the date of acquisition, these projects had not reached technological feasibility and had no future alternative minimum use. Accordingly, the value allocated to these projects was immediately expensed in research and development on the acquisition date.

The following unaudited pro forma information shows the results of operations for the year ended June 30, 2003 and the three months ended September 30, 2003 as if the SaRonix acquisition occurred on the first day of fiscal year 2003, with the exception that the purchase accounting adjustments were estimated based on the closing date of the SaRonix acquisition.

The pro forma information is presented for illustrative purposes only and is not necessarily indicative of the operating results that would have occurred if the acquisition had been consummated at the beginning of the earliest period presented, nor is it necessarily indicative of future operating results.

	Year Ended	Three Months Ended
	June 30, 2003	September 30, 2003
<u>Unaudited pro-forma information:</u>		
Net revenues	\$ 63,992	\$ 14,804
Net loss	<u>(\$ 9,862)</u>	<u>(\$ 2,752)</u>
Basic and diluted loss per share	<u>(\$0.38)</u>	<u>(\$0.11)</u>

### 3. Loss Per Share

Basic loss per share is based upon the weighted average number of common shares outstanding. Diluted loss per share reflects the additional potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock.

Basic and diluted loss per share for the three and six-month periods ended December 31, 2003 and 2002 are computed as follows (in thousands, except for per share data):

	Three Months Ended December 31,		Six Months Ended December 31,	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Net loss	<u>(\$1,875)</u>	<u>(\$2,403)</u>	<u>(\$2,675)</u>	<u>(\$3,326)</u>
Computation of common shares outstanding – basic loss per share:				
Weighted average shares of common stock	25,928	25,730	25,872	25,730
Shares used in computing basic loss per share	<u>25,928</u>	<u>25,730</u>	<u>25,872</u>	<u>25,730</u>
Basic loss per share	<u>(\$0.07)</u>	<u>(\$0.09)</u>	<u>(\$0.10)</u>	<u>(\$0.13)</u>
Computation of common shares outstanding – diluted loss per share:				
Weighted average shares of common stock	25,928	25,730	25,872	25,730
Dilutive options using the treasury stock method	---	---	---	---
Shares used in computing diluted loss per share	<u>25,928</u>	<u>25,730</u>	<u>25,872</u>	<u>25,730</u>
Diluted loss per share	<u>(\$0.07)</u>	<u>(\$0.09)</u>	<u>(\$0.10)</u>	<u>(\$0.13)</u>

For the three and six-month periods ended December 31, 2003, options to purchase 5,678,714 shares of common stock were not included in the computation of diluted net loss per share because the Company had a net loss for these periods and those options would be anti-dilutive. For the three and six-month periods ended December 31, 2002, options to purchase 5,368,234 shares of common stock were not included in the computation of diluted net loss per share because the Company had a net loss for these periods and those options would be anti-dilutive.

### 4. Inventories

Inventories consist of (in thousands):

	December 31, <u>2003</u>	June 30, <u>2003</u>
Raw materials	\$4,558	\$2,025
Work in process	3,937	2,486
Finished goods	4,058	5,452
	<u>\$12,553</u>	<u>\$9,963</u>

## 5. Accrued Liabilities

Accrued liabilities consist of (in thousands):

	December 31, <u>2003</u>	June 30, <u>2003</u>
Accrued compensation	\$1,626	\$1,240
External sales representative commissions	694	632
Restructuring accrual	1,463	653
Other accrued expenses	1,680	600
	<u>\$5,463</u>	<u>\$3,125</u>

## 6. Bank Loan and Capital Leases

Bank loan and capital leases consist of (in thousands):

	December 31, <u>2003</u>	June 30, <u>2003</u>
Bank loan	\$1,337	\$ ---
Capital leases	12	---
Total	<u>\$1,349</u>	<u>\$ ---</u>

### ***Bank Loan***

As part of the acquisition of SaRonix (see Note 2), the Company assumed a loan from a bank. The loan has a variable interest rate of 2.5% over the 30 day LIBOR rate (1.1% at December 31, 2003) and was payable in monthly installments of principal and interest in Irish Pounds for ten years. This loan was amended twice, with the latest amendment effective in September 2003, to modify the payment terms to require interest only payments until October 31, 2004. This loan is secured by a building owned by the Company in Ireland, which is classified as held for sale at December 31, 2003. At December 31, 2003, the Company had \$1,337,000 outstanding under this loan classified as a current liability based on the Company's intent to pay off this loan in connection with the sale of the building.

## Capital Lease Obligations

As part of the acquisition of SaRonix (see Note 2), the Company assumed various capital leases with interest rates ranging from 6% to 16%. The remaining payments for these leases will be paid within one year. The leases are secured by the equipment acquired by SaRonix under these leases.

## 7. Investments and Loan to SaRonix LLC

The Company has investments in certain privately held companies, which it accounts for under the cost method. The carrying amount of such investments was approximately \$2.9 million and \$10.0 million at December 31, 2003 and June 30, 2003, respectively, and these amounts are recorded in other assets and loan to SaRonix LLC (see Note 2).

## 8. Restructuring

During the quarter ended December 31, 2002, the Company revised its estimate of a previous restructuring charge for an unused portion of its San Jose, California facility. The Company recorded a restructuring charge of \$1.4 million related to this facility. This charge represents the future lease payments and estimated utility and maintenance costs for the remainder of the lease, which expires in May 2005. The Company received notice that a sublessee would move from this facility and the Company estimated that it will not be able to sublease the facility due to the excess available real estate in the San Jose, California area. Due to the continued depression in the Company's business, the Company determined that this portion of the facility will not be utilized over the remaining lease term.

During the quarter ended December 31, 2003, the Company recorded an additional restructuring charge of \$784,000 when it moved out of this facility and into a new corporate headquarters.

The following table sets forth the activity of the restructuring accrual as of December 31, 2003 (in thousands):

Balance at June 30, 2003	\$ 1,272
Additional reserves	784
Payments	<u>(312)</u>
Balance at December 31, 2003	<u><u>\$1,744</u></u>

The Company has classified \$281,000 and \$619,000 of this accrual in long-term liabilities and \$1,463,000 and \$653,000 in current accrued liabilities in the accompanying balance sheets as of December 31, 2003 and June 30, 2003, respectively.

## 9. Industry and Segment Information

Statement of Financial Accounting Standards ("SFAS") No. 131, "Disclosures about Segments of an Enterprise and Related Information" established annual and interim reporting standards for an enterprise's business segments and related disclosures about its products, services, geographical areas and major customers. The Company operates and tracks its results in one reportable segment. The Company designs, develops, manufactures and markets a broad range of interface integrated circuits and frequency control products.

In each of the three and six-month periods ended December 31, 2003 and 2002 there were two direct customers that each accounted for more than 10% of net sales. The majority of the Company's property and equipment is located within the United States.

The following table sets forth net revenues by country as a percentage of total net revenues for the three and six-month periods ended December 31, 2003 and 2002.

	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
United States	29.0%	35.6%	27.8%	34.8%
Taiwan	18.2%	19.4%	20.9%	16.3%
China	20.1%	15.9%	19.6%	15.6%
Singapore	8.9%	11.3%	10.8%	15.6%
Other (less than 10% each)	23.8%	17.8%	20.9%	17.7%
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

## 10. Comprehensive Income

SFAS No. 130, "Reporting Comprehensive Income" requires an enterprise to report, by major components and as a single total, the change in net assets during the period from non-owner sources. For the three and six-month periods ended December 31, 2003 and 2002, comprehensive income, which was comprised of the Company's net loss for the periods and changes in cumulative unrealized gain/(loss) on short-term investments net of tax was as follows:

	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Net loss	(\$1,875)	(\$2,403)	(\$2,675)	(\$3,326)
Unrealized gain/(loss) on investment	(240)	149	(657)	835
Translation gain/(loss)	(21)	---	25	---
Comprehensive loss	<u>(\$2,136)</u>	<u>(\$2,254)</u>	<u>(\$3,307)</u>	<u>(\$2,491)</u>

## 11. Stock Repurchase Program

On October 22, 2001 the Company's Board of Directors authorized a stock repurchase program to repurchase up to 2,000,000 shares of Pericom's common stock. Purchases may be made in the open market or in privately negotiated transactions from time to time at management's discretion. The Company began repurchasing shares of Pericom's stock on July 23, 2002. The Company has purchased a total of 274,500 shares at a total cost of approximately \$2.2 million as of December 31, 2003.

## 12. Commitments

In October 2003, the Company entered into a lease for a new corporate headquarters for a period of ten years with two consecutive options to extend for an additional five years each. The future minimum operating lease commitments, including leases on facilities being abandoned (see Note 8), at December 31, 2003 are as follows (in thousands):

Fiscal Year	Fiscal Year Ending June 30,					
	<u>2004 (1)</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>Thereafter</u>
Operating lease payments	\$636	\$962	\$978	\$966	\$963	\$5,831

(1) Represents remaining six months of fiscal year

## Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations

### Pericom Semiconductor Corporation

The following information should be read in conjunction with the unaudited financial statements and notes thereto included in Part 1 - Item 1 of this Quarterly Report and the audited financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in the Company's Annual Report on Form 10-K (the "Form 10-K").

#### **Significant Events**

On October 1, 2003, Pericom Semiconductor Corporation, acting through its wholly-owned subsidiary SaRonix, Inc. ("SaRonix"), exercised its option to acquire substantially all of the assets and related liabilities of SaRonix, LLC (see Note 2 to the condensed consolidated financial statements). Beginning with the three months ended December 31, 2003, the Company's operating results include the operations of SaRonix.

#### **Critical Accounting Policies**

Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of such statements requires us to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period and the reported amounts of assets and liabilities as of the date of the financial statements. Our estimates are based on historical experience and other assumptions that we consider to be reasonable given the circumstances. Actual results may vary from our estimates.

We consider the following accounting policies to be "critical" as defined by the Securities and Exchange Commission, in that they are both highly important to the portrayal of our financial condition and results, and require us to make difficult judgements and assumptions about matters that are inherently uncertain. We also have other important policies that are discussed in Note 1 to the Consolidated Financial Statements in our Form 10-K.

**Revenue Recognition.** We recognize revenue from the sale of our products upon shipment, provided title and risk of loss has passed to the customer, the fee is fixed and determinable and collection of the revenue is reasonably assured. A provision for estimated future returns and other charges against revenue is recorded at the time of shipment. Approximately 51% of our sales are to distributors. We have agreements for price protection and stock rotation programs with our distributors. The revenue we record for sales to our distributors is net of estimated provisions for these programs. When determining this net revenue, we must make significant judgments and estimates. Our estimates are based on historical experience rates, inventory levels in the distribution channel, current trends and other related factors. However, because of the inherent nature of estimates, there is a risk that there could be significant differences between actual amounts and our estimates. Our financial condition and operating results depend on our ability to make reliable estimates and we believe that our estimates are reasonable.

**Inventories.** Inventories are recorded at the lower of standard cost (which generally approximates actual cost on a first-in, first-out basis) or market value. We adjust the carrying value of inventory for excess and obsolete inventory based on inventory age, shipment history and our forecast of demand over a specific future period of time. The semiconductor markets that we serve are volatile and actual results may vary from our forecast or other assumptions, potentially impacting our inventory valuation and resulting in material effects on our gross margin.

**Investments.** As required by SFAS No. 142, “Goodwill and Other Intangible Assets”, which we adopted in fiscal 2002, we ceased amortizing goodwill with a net carrying value of \$1.3 million that resulted from our investment in Pericom Technology, Inc. SFAS No. 142 also requires that goodwill be tested for impairment at least annually. We determined that no impairment of this goodwill existed in fiscal 2003, and we will continue to evaluate such goodwill at least annually.

We have also made other investments including loans, bridge loans convertible to equity or asset purchases as well as direct equity investments. These loans and investments are made with strategic intentions and have been in privately held technology companies, which by their nature are high risk. These investments are included in other assets in the balance sheet and are carried at the lower of cost, or market if the investment has experienced an other-than-temporary decline in value. We monitor these investments quarterly and make appropriate reductions in carrying value if a decline in value is deemed to be other than temporary.

### Deferred Tax Assets

Our deferred income tax assets represent temporary differences between the financial statement carrying amount and the tax basis of existing assets and liabilities that will result in deductible amounts in future years, including net operating loss carryforwards. Based on estimates, the carrying value of our net deferred tax assets assumes that it is more likely than not that we will be able to generate sufficient future taxable income in certain tax jurisdictions. Our judgments regarding future profitability may change due to future market conditions, changes in U.S. or international tax laws and other factors. If these estimates and related assumptions change in the future, we may be required to increase our valuation allowance against the deferred tax assets resulting in additional income tax expense.

### Results of Operations

The following table sets forth certain statement of operations data as a percentage of net revenues for the periods indicated.

	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Net revenues	100.0%	100.0%	100.0%	100.0%
Cost of revenues	72.8%	70.5%	72.0%	70.2%
Gross profit	27.2%	29.5%	28.0%	29.8%
Operating expenses:				
Research and development	23.7%	25.2%	25.8%	26.0%
Selling, general and administrative	25.4%	25.1%	24.4%	27.1%
Restructuring charge	4.7%	12.9%	2.8%	6.5%
Total	53.8%	63.2%	53.0%	59.6%
Loss from operations	(26.6%)	(33.7%)	(25.0%)	(29.8%)
Equity in net loss of investee	0.4%	(2.9%)	0.5%	(3.1%)
Interest income	6.0%	12.0%	7.1%	12.9%
Other-than-temporary decline in investment	0.0%	(9.8%)	0.0%	(5.2%)
Loss before income taxes	(20.2%)	(34.4%)	(17.4%)	(25.2%)
Income tax benefit	(9.1%)	(12.8%)	(7.8%)	(10.1%)
Net loss	(11.1%)	(21.6%)	(9.6%)	(15.1%)

## Net Revenues

(In thousands)	Three Months Ended December 31,			Six Months Ended December 31,		
	<u>2003</u>	<u>2002</u>	<u>% Change</u>	<u>2003</u>	<u>2002</u>	<u>% Change</u>
Net revenues	\$16,850	\$11,132	51.4%	\$27,922	\$21,960	27.1%
Percentage of net sales accounted for by top 5 direct customers (1)	36.8%	48.0%		42.8%	46.0%	
Number of direct customers that each account for more than 10% of net sales	2	2		2	2	
Percentage of gross sales accounted for by top 5 end customers (2)	29.9%	38.0%		31.1%	42.0%	
Number of end customers that each account for more than 10% of gross sales	0	2		0	2	

- (1) Direct customers purchase products directly from the Company. These include distributors and contract manufacturers that in turn sell to many end customers as well as OEMs that also purchase directly from the Company.
- (2) End customers are OEMs whose products include the Company's products. End customers may purchase directly from the Company or from distributors or contract manufacturers. We rely on the end customer data provided by our direct distribution and contract manufacturing customers.

On October 1, 2003, the Company exercised its option to acquire SaRonix LLC of Menlo Park, California. Beginning with the quarter ended December 31, 2003, the Company's revenues include revenues of \$4.7 million from sales of SaRonix products.

The rapid semiconductor industry downturn that began in fiscal 2001 also caused over-supply of inventories in the global distribution and contract manufacturing channels. This inventory imbalance pushed order rates down, caused a corresponding drop in backlog and caused the percentage of net sales represented by orders placed and shipped in the same quarter to grow. These orders are called "turns" orders. Even with the mild recovery that appears to be currently taking place, there is still significant reliance on turns orders. With reliance on turns orders, there is uncertainty in the Company's ability to predict future revenue levels.

Net revenues consist primarily of product sales, which are recognized upon shipment, less an estimate for returns and allowances. The increase in revenues for the three and six-month periods ended December 31, 2003 as compared with the same periods in the prior year is primarily attributable to the acquisition of SaRonix Inc. The increase in revenues is also attributable to the mild recovery that appears to be taking place in the end markets the Company serves.

The following table sets forth net revenues by country as a percentage of total net revenues for the three and six-month periods ended December 31, 2003 and 2002.

	Three Months Ended December 31,		Six Months Ended December 31,	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
United States	29.0%	35.6%	27.8%	34.8%
Taiwan	18.2%	19.4%	20.9%	16.3%
China	20.1%	15.9%	19.6%	15.6%
Singapore	8.9%	11.3%	10.8%	15.6%
Other (less than 10% each)	23.8%	17.8%	20.9%	17.7%
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

For the three and six-month periods ended December 31, 2003 as compared with the same periods in the prior year the percentage of our net revenues derived from sales to countries in Asia increased and the percentage derived from sales to the United States decreased. These changes were primarily driven by the SaRonix acquisition, and the ongoing shift of contract manufacturing production from North America to Asia.

### ***Gross Profit***

(In thousands)	Three Months Ended December 31,			Six Months Ended December 31,		
	<u>2003</u>	<u>2002</u>	<u>% Change</u>	<u>2003</u>	<u>2002</u>	<u>% Change</u>
Net revenues	\$16,850	\$11,132	51.4%	\$27,922	\$21,960	27.1%
Gross profit	4,588	3,280	39.9%	7,806	6,548	19.2%
Gross profit as a percentage of net revenues (gross margin)	27.2%	29.5%		28.0%	29.8%	

The increase in gross profit in the three and six-month periods ended December 31, 2003, as compared with the same periods in the prior year was primarily due to gross profit of \$864,000 provided by SaRonix and, to a lesser extent, the mild recovery of the semiconductor industry that appears to be currently taking place. The reduction in gross margin for the same periods was also primarily due to lower gross margins from the sale of inventory acquired from SaRonix that was written up by \$573,000 to fair value in connection with the acquisition and to severance costs of \$107,000 related to a November 2003 reduction in workforce, which were partially offset by improvements in product mix and the growth of net revenues. Future gross profit and gross margin are highly dependent on the level and product mix of net revenues. Accordingly, we are not able to predict future gross profit levels or gross margins with certainty.

### ***Research and Development***

(In thousands)	Three Months Ended December 31,			Six Months Ended December 31,		
	<u>2003</u>	<u>2002</u>	<u>% Change</u>	<u>2003</u>	<u>2002</u>	<u>% Change</u>
	Net revenues	\$16,850	\$11,132	51.4%	\$27,922	\$21,960
Research and development	3,987	2,800	42.4%	7,197	5,718	25.9%
R&D as a percentage of net revenues	23.7%	25.2%		25.8%	26.0%	

Research and development expenses consist primarily of costs related to personnel and overhead, non-recurring engineering charges, and other costs associated with the design, prototyping, testing, manufacturing process support and customer applications support of our products. The expense increase in the three and six-month periods ended December 31, 2003 as compared to the same periods in the previous year was primarily due to the acquisition of SaRonix. Research and development costs of SaRonix were \$864,000 for the three and six months ended December 31, 2003. In addition, \$360,000 of in-process research and development acquired from SaRonix was written off during these periods. Other factors that contributed to the expense increase were costs of \$163,000 and \$298,000 in the three and six-month periods ended December 31, 2003, respectively, that were associated with Pericom Taiwan Ltd. which commenced operations in June 2003.

The Company believes that continued spending on research and development to develop new products and improve manufacturing processes is critical to the Company's success and, consequently, expects to increase research and development expenses in future periods over the long term. In the short term, the Company intends to continue to focus on cost control as business conditions warrant. If business conditions deteriorate or the rate of improvement does not meet plan, the Company may implement further cost-cutting actions.

### ***Selling, General and Administrative***

(In thousands)	Three Months Ended December 31,			Six Months Ended December 31,		
	<u>2003</u>	<u>2002</u>	<u>% Change</u>	<u>2003</u>	<u>2002</u>	<u>% Change</u>
	Net revenues	\$16,850	\$11,132	51.4%	\$27,922	\$21,960
Selling, general and administrative	4,292	2,799	53.3%	6,807	5,957	14.3%
S,G&A as a percentage of net revenues	25.5%	25.1%		24.4%	27.2%	

Selling, general and administrative expenses consist primarily of personnel and related overhead costs for sales, marketing, finance, administration, human resources and general management. The expense increase in the three and six-month periods ended December 31, 2003 as compared to the same periods in the prior year was primarily due to the acquisition of SaRonix. Costs of \$1.4 million relate to the operations of SaRonix for these periods. In addition, customer backlog acquired from SaRonix, with a fair value of \$320,000 was amortized during these periods.

The Company anticipates that selling, general and administrative expenses will increase in future periods over the long term due to increased staffing levels, particularly in sales and marketing, as well as increased commission expense to the extent the Company achieves higher sales levels. In the short term, costs

associated with Sarbanes-Oxley section 404 compliance may increase selling, general and administrative expenses. The Company intends to continue to focus on controlling costs until business conditions improve. If business conditions deteriorate or the rate of improvement does not meet our goals, the Company may implement further cost-cutting actions.

***Restructuring Charge***

(In thousands)	Three Months Ended December 31,			Six Months Ended December 31,		
	<u>2003</u>	<u>2002</u>	<u>%</u> <u>Change</u>	<u>2003</u>	<u>2002</u>	<u>%</u> <u>Change</u>
	Net revenues	\$16,850	\$11,132	51.4%	\$27,922	\$21,960
Restructuring charge	784	1,431	(45.2%)	784	1,431	(45.2%)
Restructuring charge as a percentage of net revenues	4.7%	12.9%		2.8%	6.5%	

In the three months ended December 31, 2002 a \$1.4 million restructuring charge related to an unused portion of a leased facility was recorded. The restructuring accrual is expected to be fully depleted in the fourth quarter of fiscal 2005, when the lease terminates. In the three months ended December 31, 2003 a \$784,000 restructuring charge related to another leased facility was recorded when the Company vacated that facility completely and moved to a new corporate headquarters. On December 31, 2003, the remaining balance of the restructuring accrual was \$1.7 million.

***Equity in Net Loss of Investee***

(In thousands)	Three Months Ended December 31,			Six Months Ended December 31,		
	<u>2003</u>	<u>2002</u>	<u>Change</u>	<u>2003</u>	<u>2002</u>	<u>Change</u>
	Equity in net income (loss) of investee	\$68	(\$323)	\$391	\$137	(\$670)

Equity in net loss of investee is the Company's allocated portion of the net income or losses of Pericom Technology, Inc. ("PTI"), a British Virgin Islands corporation based in Shanghai, People's Republic of China. PTI was formed by Pericom and certain Pericom shareholders in 1994 to develop and market semiconductors in China and certain other Asian countries. The Company's allocated portion of PTI's results improved to a gain for the three and six-month periods ended December 31, 2003 from a loss for the comparable periods in the prior year due to improving conditions in the China markets that PTI serves and increasing market acceptance of PTI's new product offerings.

### ***Interest Income***

(In thousands)	Three Months Ended December 31,			Six Months Ended December 31,		
	<u>2003</u>	<u>2002</u>	<u>% Change</u>	<u>2003</u>	<u>2002</u>	<u>% Change</u>
Interest income	\$996	\$1,328	(25.0%)	\$1,988	\$2,827	(29.7%)

The decrease in interest income for the three and six-month periods ended December 31, 2003 as compared to the comparable prior year periods was due to a combination of less invested capital, lower interest rates as older higher yielding investments matured and were reinvested at current rates and reduced capital gains as certain investments were sold at a profit in the prior years three and six-month periods.

### ***Provision for Income Taxes***

(In thousands)	Three Months Ended December 31,			Six Months Ended December 31,		
	<u>2003</u>	<u>2002</u>	<u>% Change</u>	<u>2003</u>	<u>2002</u>	<u>% Change</u>
Pre-tax loss	(\$3,411)	(\$3,834)	(11.0%)	(\$4,866)	(\$5,542)	(12.2%)
Income tax benefit	(1,536)	(1,431)	7.3%	(2,191)	(2,216)	(1.1%)
Effective tax rate	45.0%	37.3%		45.0%	40.0%	

Our effective tax rate, which is a benefit, is 45% for the three and six-month periods ended December 31, 2003. The income tax benefit in fiscal 2003 was the result of the carry back of the net loss to prior fiscal years. The income tax benefit in fiscal 2004 is the result of a deferred tax asset being recorded to carry forward the net loss to future years. The provision for income taxes differed from the federal statutory rate primarily due to state income taxes, the utilization of research and development tax credits and a change in the deferred tax asset valuation allowance.

### ***Liquidity and Capital Resources***

(In thousands)	Six Months Ended December 31,		
	<u>2003</u>	<u>2002</u>	<u>Change</u>
Net cash provided by (used in) operating activities	(\$992)	\$726	(\$3,712)
Net cash provided by (used in) investing activities	1,544	(3,709)	7,217
Net cash provided by (used in) financing activities	957	(549)	1,536

As of December 31, 2003, the Company's principal sources of liquidity included cash, cash equivalents and short-term investments of approximately \$145.7 million as compared with \$149.0 million as of June 30, 2003.

The Company's net cash used in operating activities was \$992,000 in the six months ended December 31, 2003 as compared to \$726,000 of cash provided by operating activities in the comparable prior year period. The increase in cash used was primarily due to equity in net income of investee of \$137,000, deferred income taxes of \$409,000 and a \$1.1 million increase in accounts receivable due to increased sales for the

three months ended December 31, 2003 partially offset by a \$2.7 million increase in accounts payable due to increased purchases of inventory to support the expected increase in sales.

The Company's cash provided from investing activities of \$1.5 million for the six months ended December 31, 2003 is primarily due to maturities of short-term investments exceeding purchases by \$3.8 million and loans to SaRonix of \$1.2 million partially offset by purchases of property and equipment of \$1.5 million. The Company's cash used in investing activities of \$3.7 million for the six months ended December 31, 2002 is primarily due to \$908,000 of purchases of property and equipment, loans provided to SaRonix of \$750,000 and an investment of \$2.0 million in the common stock of a private company.

The Company's cash provided by financing activities in the six months ended December 31, 2003 of \$957,000 was primarily due to the sale of common stock from the Company's employee stock plans. The Company's cash used from financing activities in the six months ended December 31, 2002 was \$549,000 due to proceeds received from the sale of common stock from the Company's employee stock plans of \$831,000 offset by the repurchase of common stock by the Company of \$1.4 million.

The Company's Board of Directors has approved the repurchase of up to 2,000,000 shares of the Company's common stock. As of December 31, 2003, the Company has repurchased 274,500 shares at a cost of approximately \$2.2 million. The Company did not repurchase any shares during the six months ended December 31, 2003. The Company intends to continue repurchasing shares under this program over time depending upon price and share availability.

A portion of our cash may be used to acquire or invest in complementary businesses or products or to obtain the right to use complementary technologies. From time to time, in the ordinary course of business, we may evaluate potential acquisitions of such businesses, products or technologies.

Management believes that existing cash balances and cash generated from operations will be sufficient to fund necessary purchases of capital equipment and to provide working capital at least through the next twelve months. However, future events may require the Company to seek additional capital sooner. If the Company determines that it needs to seek additional capital, the Company may not be able to obtain such additional capital on terms acceptable to it.

### Commitments

The Company leases certain facilities under operating leases with termination dates on or before December 2013. Generally, these leases have at multiple options to extend for an additional three or five years upon termination of the original lease term or previously exercised option to extend.

The future minimum operating lease commitments at December 31, 2003 are as follows (in thousands):

Fiscal Year	Fiscal Year Ending June 30,					
	<u>2004 (1)</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>Thereafter</u>
Operating lease payments	\$636	\$962	\$978	\$966	\$963	\$5,831

(1) Represents remaining six months of fiscal year

As part of the acquisition of SaRonix (see Note 2), the Company assumed a loan from a bank. This loan is secured by a building owned by the Company in Ireland, which is classified as held for sale at December 31, 2003. The Company's intent is to pay off this loan in connection with the sale of the building.

### ***Factors That May Affect Operating Results***

This Quarterly Report on Form 10-Q includes “forward-looking statements” within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. All statements other than statements of historical fact are “forward-looking statements” for purposes of these provisions, including any statements regarding: projections of revenues, expenses or other financial items; the plans and objectives of management for future operations; the Company’s tax rate; the adequacy of allowances for returns, price protection and other concessions; proposed new products or services; the sufficiency of cash generated from operations and cash balances; the Company’s exposure to interest rate risk; future economic conditions or performance; plans to focus on cost control; plans to seek intellectual property protection for the Company’s technologies; expectations regarding export sales and net revenues; the expansion of sales efforts; acquisition prospects; the results of our acquisition of SaRonix and our other possible future acquisitions and assumptions underlying any of the foregoing. In some cases, forward-looking statements can be identified by the use of terminology such as “may,” “will,” “expects,” “plans,” “anticipates,” “estimates,” “potential,” or “continue,” or the negative thereof or other comparable terminology. Although the Company believes that the expectations reflected in the forward-looking statements contained herein are reasonable, there can be no assurance that such expectations or any of the forward-looking statements will prove to be correct, and actual results could differ materially from those projected or assumed in the forward-looking statements. The Company’s future financial condition and results of operations, as well as any forward-looking statements, are subject to risks and uncertainties, including but not limited to the factors set forth (i) below, (ii) in the Company’s Form 10-K under the heading “Risk Factors; Factors That May Affect Future Results”, and (iii) in Note 1 to the Notes to Condensed Consolidated Financial Statements. All forward-looking statements and reasons why results may differ included in this Quarterly Report are made as of the date hereof, and the Company assumes no obligation to update any such forward-looking statement or reason why actual results may differ.

#### **Our results of operations have been adversely affected by the global economic slowdowns in the past.**

For over two years, the global economy has been experiencing a slowdown due to many factors, including decreased consumer confidence, unemployment, threat of terrorism, and reduced corporate profits and capital spending. As a result of these unfavorable conditions, our new customer order rates have stabilized at a much lower level than in the past. Although economic conditions have improved somewhat in the quarter ended December 31, 2003, a resumption of global economic slowing may materially and adversely affect our business, financial condition and results of operations.

#### **Downturns in the semiconductor industry, rapidly changing technology, accelerated selling price erosion and evolving industry standards can harm our operating results.**

The semiconductor industry has historically been cyclical and periodically subject to significant economic downturns--characterized by diminished product demand, accelerated erosion of selling prices and overcapacity--as well as rapidly changing technology and evolving industry standards. We believe that the semiconductor industry is currently in such a downturn. Our net revenues may continue to be adversely affected if this downturn continues. In the future, we may experience substantial period-to-period fluctuations in our business and operating results due to general semiconductor industry conditions, overall economic conditions or other factors. Our business is also subject to the risks associated with the effects of legislation and regulations relating to the import or export of semiconductor products.

#### **If we do not develop products that our customers and end-users design into their products, or if their products do not sell successfully, our business and operating results would be harmed.**

We have relied in the past and continue to rely upon our relationships with our customers and end-users for insights into product development strategies for emerging system requirements. We generally incorporate new products into a customer's or end-user's product or system at the design stage. However, these design efforts, which can often require significant expenditures by us, may precede product sales, if any, by a year or more. Moreover, the value to us of any design win will depend in large part on the ultimate success of

the customer's or end-user's product and on the extent to which the system's design accommodates components manufactured by our competitors. If we fail to achieve design wins or if the design wins fail to result in significant future revenues, our operating results would be harmed. If we have problems developing or maintaining our relationships with our customers and end-users, our ability to develop well-accepted new products may be impaired.

**Our acquisition of SaRonix, and other potential future acquisitions may not be successful because we have not made acquisitions in the past.**

On October 1, 2003 we exercised our option to acquire substantially all the assets and related liabilities of SaRonix LLC of Menlo Park, CA. This was our first acquisition. Prior to this, we have depended on internal growth and not made any acquisitions.

The SaRonix acquisition and other potential future acquisitions could result in the following:

- large one-time write-offs;
- diversion of management's attention from other business concerns;
- risks of entering geographic and business markets in which we have no or limited prior experience and potential loss of key employees of acquired organizations.
- potentially dilutive issuances of equity securities;
- the incurrence of debt and contingent liabilities or amortization expenses related to intangible assets; and
- difficulties in the assimilation of operations, personnel, technologies, products and the information systems of the acquired companies;

We are not certain that we will be able to integrate the SaRonix business or any other businesses, products, technologies or personnel that may be acquired in the future. Our failure to do so could seriously harm our business.

As part of our business strategy, we expect to seek other acquisition prospects, in addition to SaRonix, that would complement our existing product offerings, improve our market coverage or enhance our technological capabilities. Although we are evaluating acquisition and strategic investment opportunities on an ongoing basis, we may not be able to locate suitable acquisition or investment opportunities. In addition, from time to time, we invest in other companies, without actually acquiring them, and such investments involve many of the same risks as are involved with acquisitions. For example, we previously made a bridge loan investment to a start up, high technology company, and we subsequently had to write off this loan in light of the financial condition of that company.

**The trading price of our common stock and our operating results are likely to fluctuate substantially in the future.**

The trading price of our common stock has been and is likely to continue to be highly volatile. Our stock price could fluctuate widely in response to factors some of which are not within our control, including:

- general conditions in the semiconductor and electronic systems industries;
- quarter-to-quarter variations in operating results;
- announcements of technological innovations or new products by us or our competitors; and
- changes in earnings estimates by analysts; and price and volume fluctuations in the overall stock market, which have particularly affected the market prices of many high technology companies.

**In the past, our quarterly operating results have varied significantly and are likely to fluctuate in the future.**

A wide variety of factors affect our operating results. These factors might include the following:

- general conditions in the semiconductor industry;
- changes in our product mix;
- a decline in the gross margins of our products;
- the operating results of SaRonix, LLC, which we acquired on October 1, 2003;
- expenses incurred in obtaining, enforcing, and defending intellectual property rights;
- the timing of new product introductions and announcements by us and by our competitors;
- customer acceptance of new products introduced by us;
- delay or decline in orders received from distributors;
- growth or reduction in the size of the market for interface ICs;
- the availability of manufacturing capacity with our wafer suppliers;
- changes in manufacturing costs;
- fluctuations in manufacturing yields;
- disqualification by our customers for quality or performance related issues;
- the ability of customers to pay us; and
- increased research and development expenses associated with new product introductions or process changes.

All of these factors are difficult to forecast and could seriously harm our operating results. Our expense levels are based in part on our expectations regarding future sales and are largely fixed in the short term. Therefore, we may be unable to reduce our expenses fast enough to compensate for any unexpected shortfall in sales. Any significant decline in demand relative to our expectations or any material delay of customer orders could harm our operating results. In addition, if our operating results in future quarters fall below public market analysts' and investors' expectations, the market price of our common stock would likely decrease.

**The markets for our products are characterized by rapidly changing technology, and our financial results could be harmed if we do not successfully develop and implement new manufacturing technologies or develop, introduce and sell new products.**

The markets for our products are characterized by rapidly changing technology, frequent new product introductions and declining selling prices over product life cycles. We currently offer a comprehensive portfolio of silicon and quartz based products. Our future success depends upon the timely completion and introduction of new products, across all our product lines, at competitive price and performance levels. The success of new products depends on a variety of factors, including the following:

- product performance and functionality;
- customer acceptance;
- competitive cost structure and pricing;
- successful and timely completion of product development;
- sufficient wafer fabrication capacity; and
- achievement of acceptable manufacturing yields by our wafer suppliers.

We may also experience delays, difficulty in procuring adequate fabrication capacity for the development and manufacture of new products or other difficulties in achieving volume production of these products. Even relatively minor errors may significantly affect the development and manufacture of new products. If we fail to complete and introduce new products in a timely manner at competitive price and performance levels, our business would be significantly harmed.

**Intense competition in the semiconductor industry may reduce the demand for our products or the prices of our products, which could reduce our revenues and gross profits.**

The semiconductor industry is intensely competitive. Our competitors include Analog Devices, Cypress Semiconductor Corporation, Fairchild Semiconductor, Int'l., Hitachi, Integrated Circuit Systems, Inc.,

Integrated Device Technology, Inc., Intel Corp., Maxim Integrated Products, Inc., Motorola, On Semiconductor Corp., Tundra Semiconductor Corp., PLX Technology, STMicroelectronics, Texas Instruments, Inc and Toshiba. Most of those competitors have substantially greater financial, technical, marketing, distribution and other resources, broader product lines and longer-standing customer relationships than we do. We also compete with other major or emerging companies that sell products to certain segments of our markets. Competitors with greater financial resources or broader product lines may have a greater ability to sustain price reductions in our primary markets in order to gain or maintain market share.

We believe that our future success will depend on our ability to continue to improve and develop our products and processes. Unlike us, many of our competitors maintain internal manufacturing capacity for the fabrication and assembly of semiconductor products. This ability may provide them with more reliable manufacturing capability, shorter development and manufacturing cycles and time-to-market advantages. In addition, competitors with their own wafer fabrication facilities that are capable of producing products with the same design geometries as ours may be able to manufacture and sell competitive products at lower prices. Any introduction of products by our competitors that are manufactured with improved process technology could seriously harm our business. As is typical in the semiconductor industry, our competitors have developed and marketed products that function similarly or identically to ours. If our products do not achieve performance, price, size or other advantages over products offered by our competitors, our products may lose market share. Competitive pressures could also reduce market acceptance of our products, reduce our prices and increase our expenses.

We also face competition from the makers of ASICs and other system devices. These devices may include interface logic functions, which may eliminate the need or sharply reduce the demand for our products in particular applications.

**Product price declines and fluctuations may cause our future financial results to vary.**

Historically, selling prices in the semiconductor industry generally, as well as for our products, have decreased significantly over the life of each product. We expect that selling prices for our existing products will continue to decline over time and that average selling prices for our new products will decline significantly over the lives of those products. Declines in selling prices for our products, if not offset by reductions in the costs of producing these products or by sales of new products with higher gross margins, would reduce our overall gross margins and could seriously harm our business.

**The demand for our products depends on the growth of our end users' markets.**

Our continued success depends in large part on the continued growth of markets for the products into which our semiconductor products are incorporated. These markets include the following:

- computers and computer related peripherals;
- data communications and telecommunications equipment;
- electronic commerce and the Internet; and
- consumer electronics equipment.

Any decline in the demand for products in these markets could seriously harm our business, financial condition and operating results. These markets have also historically experienced significant fluctuations in demand. We may also be seriously harmed by slower growth in the other markets in which we sell our products.

**Our contracts with our wafer suppliers do not obligate them to a minimum supply or set prices. Any inability or unwillingness of our wafer suppliers generally, and Chartered Semiconductor Manufacturing Ltd. in particular, to meet our manufacturing requirements would delay our production and product shipments and harm our business.**

Typically Chartered Semiconductor Manufacturing Ltd. produces more than 50% of our wafer requirements. In the first six months of fiscal 2004 only four other suppliers manufactured the remainder of our wafers. In fiscal 2003 only three other suppliers manufactured the remainder of our wafers. Our reliance on independent wafer suppliers to fabricate our wafers at their production facilities subjects us to possible risks such as:

- lack of adequate capacity;
- lack of available manufactured products;
- lack of control over delivery schedules; and
- unanticipated changes in wafer prices.

Any inability or unwillingness of our wafer suppliers generally, and Chartered in particular, to provide adequate quantities of finished wafers to meet our needs in a timely manner would delay our production and product shipments and seriously harm our business. We have been notified by Chartered that, in March 2004, they will be shutting down one of their production facilities that is used to manufacture our products and we are transitioning our products to different facilities. This is a major project requiring significant technological coordination between Chartered and Pericom. The transfer of production of our products to other facilities subjects us to the above listed risks as well as potential yield or other production problems which could arise as a result of the change.

At present, we purchase wafers from our suppliers through the issuance of purchase orders based on our rolling six-month forecasts. The purchase orders are subject to acceptance by each wafer supplier. We do not have long-term supply contracts that obligate our suppliers to a minimum supply or set prices. We also depend upon our wafer suppliers to participate in process improvement efforts, such as the transition to finer geometries. If our suppliers are unable or unwilling to do so, our development and introduction of new products could be delayed. Furthermore, sudden shortages of raw materials or production capacity constraints can lead wafer suppliers to allocate available capacity to customers other than us or for the suppliers' internal uses, interrupting our ability to meet our product delivery obligations. Any significant interruption in our wafer supply would seriously harm our operating results and our customer relations. Our reliance on independent wafer suppliers may also lengthen the development cycle for our products, providing time-to-market advantages to our competitors that have in-house fabrication capacity.

In the event that our suppliers are unable or unwilling to manufacture our key products in required volumes, we will have to identify and qualify additional wafer foundries. The qualification process can take up to six months or longer. Furthermore, we are unable to predict whether additional wafer foundries will become available to us or will be in a position to satisfy any of our requirements on a timely basis.

**We depend on single or limited source assembly subcontractors with whom we do not have written contracts. Any inability or unwillingness of our assembly subcontractors to meet our assembly requirements would delay our product shipments and harm our business.**

We primarily rely on foreign subcontractors for the assembly and packaging of our products and, to a lesser extent, for the testing of finished products. Some of these subcontractors are our single source supplier for some of our new packages. In addition, changes in our or a subcontractor's business could cause us to become materially dependent on a single subcontractor. We have from time to time experienced difficulties in the timeliness and quality of product deliveries from our subcontractors and may experience similar or more severe difficulties in the future. We generally purchase these single or limited source components or services pursuant to purchase orders and have no guaranteed arrangements with these subcontractors. These subcontractors could cease to meet our requirements for components or services, or there could be a significant disruption in supplies from them, or degradation in the quality of components or services supplied by them. Any circumstance that would require us to qualify alternative supply sources could delay shipments, result in the loss of customers and limit or reduce our revenues.

**We may have difficulty accurately predicting revenues for future periods.**

Our expense levels are based in part on anticipated future revenue levels, which can be difficult to predict. Our business is characterized by short-term orders and shipment schedules. We do not have long-term purchase agreements with any of our customers, and customers can typically cancel or reschedule their orders without significant penalty. We typically plan production and inventory levels based on forecasts of customer demand generated with input from customers and sales representatives. Customer demand is highly unpredictable and can fluctuate substantially. If customer demand falls significantly below anticipated levels, our gross profit would be reduced.

**We compete with others to attract and retain key personnel, and any loss of, or inability to attract, key personnel would harm us.**

To a greater degree than non-technology companies, our future success will depend on the continued contributions of our executive officers and other key management and technical personnel. None of these individuals has an employment agreement with us and each one would be difficult to replace. We do not maintain any key person life insurance policies on any of these individuals. The loss of the services of one or more of our executive officers or key personnel or the inability to continue to attract qualified personnel could delay product development cycles or otherwise harm our business, financial condition and results of operations.

Our future success also will depend on our ability to attract and retain qualified technical, marketing and management personnel, particularly highly skilled design, process and test engineers, for whom competition can be intense. During strong business cycles, we expect to experience difficulty in filling our needs for qualified engineers and other personnel.

**Our limited ability to protect our intellectual property and proprietary rights could harm our competitive position.**

Our success depends in part on our ability to obtain patents and licenses and preserve other intellectual property rights covering our products and development and testing tools. In the United States, we hold 69 patents covering certain aspects of our product designs and have at least 23 additional patent applications pending. Copyrights, mask work protection, trade secrets and confidential technological know-how are also key to our business. Additional patents may not be issued to us or our patents or other intellectual property may not provide meaningful protection. We may be subject to, or initiate, interference proceedings in the U.S. Patent and Trademark Office. These proceedings can consume significant financial and management resources. We may become involved in litigation relating to alleged infringement by us of others' patents or other intellectual property rights. This type of litigation is frequently expensive to both the winning party and the losing party and takes up significant amounts of management's time and attention. In addition, if we lose such a lawsuit, a court could require us to pay substantial damages and/or royalties or prohibit us from using essential technologies. For these and other reasons, this type of litigation could seriously harm our business. Also, although we may seek to obtain a license under a third party's intellectual property rights in order to bring an end to certain claims or actions asserted against us, we may not be able to obtain such a license on reasonable terms or at all.

Because it is important to our success that we are able to prevent competitors from copying our innovations, we intend to continue to seek patent, trade secret and mask work protection for our technologies. The process of seeking patent protection can be long and expensive, and we cannot be certain that any currently pending or future applications will actually result in issued patents, or that, even if patents are issued, they will be of sufficient scope or strength to provide meaningful protection or any commercial advantage to us. Furthermore, others may develop technologies that are similar or superior to our technology or design around the patents we own.

We also rely on trade secret protection for our technology, in part through confidentiality agreements with our employees, consultants and third parties. However, these parties may breach these agreements. In

addition, the laws of some territories in which we develop, manufacture or sell our products may not protect our intellectual property rights to the same extent as do the laws of the United States.

The process technology used by our independent foundries, including process technology that we developed with our foundries, can generally be used by them to produce their own products or to manufacture products for other companies including our competitors. In addition, we may not have the right to implement key process technologies used to manufacture some of our products with foundries other than our present foundries.

**We may not provide adequate allowances for exchanges, returns and concessions.**

We recognize revenue from the sale of products when shipped, less an allowance based on future authorized and historical patterns of returns, price protection, exchanges and other concessions. We believe our methodology and approach are appropriate. However, if the actual amounts we incur exceed the allowances, it could decrease our revenue and corresponding gross profit.

**The complexity of our products makes us highly susceptible to manufacturing problems, which could increase our costs and delay our product shipments.**

The manufacture and assembly of our products are highly complex and sensitive to a wide variety of factors, including:

- the level of contaminants in the manufacturing environment;
- impurities in the materials used; and
- the performance of manufacturing personnel and production equipment.

In a typical semiconductor manufacturing process, silicon wafers produced by a foundry are cut into individual die. These die are assembled into individual packages and tested for performance. Our wafer fabrication suppliers have from time to time experienced lower than anticipated yields of suitable die. In the event of such decreased yields, we would incur additional costs to sort wafers, an increase in average cost per usable die and an increase in the time to market for our products. These conditions could reduce our net revenues and gross margin and harm our customer relations.

We do not manufacture any of our products. Therefore, we are referred to in the semiconductor industry as a "fabless" producer. Consequently, we depend upon third party manufacturers to produce semiconductors that meet our specifications. We currently have third party manufacturers that can produce semiconductors that meet our needs. However, as the industry continues to progress to smaller manufacturing and design geometries, the complexities of producing semiconductors will increase. Decreasing geometries may introduce new problems and delays that may affect product development and deliveries. Due to the nature of the industry and our status as a "fabless" semiconductor company, we could encounter fabrication-related problems that may affect the availability of our products, delay our shipments or increase our costs.

**A large portion of our revenues is derived from sales to a few customers, who may cease purchasing from us at any time.**

A relatively small number of customers have accounted for a significant portion of our net revenues in each of the past several fiscal years. With the addition of SaRonix, Inc. the concentration of top customers has been reduced as the top customers of SaRonix, Inc. are somewhat different than those of our core IC business. In general we expect this trend to continue for the foreseeable future. Two direct customers each accounted for more than 10% of net revenues during the three and six-month periods ended December 31, 2003 and 2002. As a percentage of net revenues, sales to our top five direct customers for the three and six-month periods ended December 31, 2003 declined from the same periods in the prior year primarily due to the acquisition of SaRonix, Inc. There were no end-user customers that individually accounted for more than 10% of our gross revenues in the three or six months ended December 31, 2003. Two end-user customers individually accounted for more than 10% of our gross revenues in the three and six-month

periods ended December 31, 2002. This decline, as well as the decline in percentage of gross sales accounted for by our top five end-user customers in the same periods, was also primarily due to the SaRonix acquisition. We expect this trend of less end-customer concentration to continue as a result of the SaRonix acquisition.

We do not have long-term sales agreements with any of our customers. Our customers are not subject to minimum purchase requirements, may reduce or delay orders periodically due to excess inventory and may discontinue purchasing our products at any time. Our distributors typically offer competing products in addition to ours. For the three months ended December 31, 2003 sales to our distributors were approximately 51% of net revenues as compared to 67% of net revenues in the three months ended September 30, 2003. The decrease in percentage of sales to our distributors in the three months ended December 31, 2003 was a result of the SaRonix acquisition. The loss of one or more significant customers, or the decision by a significant distributor to carry the product lines of our competitors, could decrease our revenues.

**Almost all of our wafer suppliers and assembly subcontractors are located in Southeast Asia, which exposes us to the problems associated with international operations.**

Almost all of our wafer suppliers and assembly subcontractors are located in Southeast Asia, which exposes us to risks associated with international business operations, including the following:

- disruptions or delays in shipments;
- changes in economic conditions in the countries where these subcontractors are located;
- currency fluctuations;
- changes in political conditions;
- potentially reduced protection for intellectual property;
- foreign governmental regulations;
- import and export controls; and
- changes in tax laws, tariffs and freight rates.

In particular, there is a potential risk of conflict and further instability in the relationship between Taiwan and the People's Republic of China. Conflict or instability could disrupt the operations of one of our principal wafer suppliers and several of our assembly subcontractors located in Taiwan.

**Because we sell our products to customers outside of the United States, we face foreign business, political and economic risks that could seriously harm us.**

In the six months ended December 31, 2003, approximately 63% of our net revenues derived from sales in Asia and approximately 6% from sales in Europe. We expect that export sales will continue to represent a significant portion of net revenues. We intend to expand our sales efforts outside the United States. This expansion will require significant management attention and financial resources and further subject us to international operating risks. These risks include:

- tariffs and other barriers and restrictions;
- unexpected changes in regulatory requirements;
- the burdens of complying with a variety of foreign laws; and
- delays resulting from difficulty in obtaining export licenses for technology.

We are also subject to general geopolitical risks in connection with our international operations, such as political and economic instability and changes in diplomatic and trade relationships. In addition, because our international sales are denominated in U.S. dollars, increases in the value of the U.S. dollar could increase the price in local currencies of our products in foreign markets and make our products relatively more expensive than competitors' products that are denominated in local currencies. Regulatory,

geopolitical and other factors could seriously harm our business or require us to modify our current business practices.

**Our operations and financial results could be severely harmed by natural disasters.**

Our headquarters and some of our major suppliers' manufacturing facilities are located near major earthquake faults. One of the foundries we use is located in Taiwan, which suffered a severe earthquake during fiscal 2000. We did not experience significant disruption to our operations as a result of that earthquake. However, if a major earthquake or other natural disaster were to affect our suppliers, our sources of supply could be interrupted, which would seriously harm our business.

**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

At December 31, 2003, our investment portfolio consisted of investment-grade fixed income securities, excluding those classified as cash equivalents, of \$134.5 million. These securities are subject to interest rate risk and will decline in value if market interest rates increase. For example, if market interest rates were to increase immediately and uniformly by 10% per annum from levels as of December 31, 2003, the fair market value of the portfolio would decrease. However, we do not believe that such a decrease would have a material effect on our results of operations over the next fiscal year. Due to the short duration and conservative nature of these instruments, we do not believe that we have a material exposure to interest rate risk.

**Item 4. Controls and Procedures.**

- A) We carried out an evaluation, under the supervision and with the participation of our management, including our President and Chief Executive Officer along with our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of our second fiscal quarter of 2004 pursuant to Exchange Act Rule 13a-15(b). Based upon that evaluation, our President and Chief Executive Officer along with our Chief Financial Officer concluded that our disclosure controls and procedures are effective in timely alerting them to material information relating to Pericom (including its consolidated subsidiaries) required to be included in our periodic SEC filings.
- B) There have been no changes in our internal control over financial reporting identified in connection with our evaluation that occurred during our second fiscal quarter of 2004 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 4. Submission of Matters to Vote of Security Holders

The Annual Meeting of Shareholders was held on December 17, 2003 in San Jose, California. The proposals presented at the meeting were all approved by the Company's shareholders and the results were as follows:

1. Election of six directors of the Company to serve for the ensuing year and until their successors are elected and qualified.

<u>Name of Director</u>	<u>Votes For</u>	<u>Votes Withheld</u>
Alex Chi-Ming Hui	22,468,703	422,058
Chi-Hung (John) Hui, Ph.D.	22,612,689	278,072
Hau L. Lee, Ph.D.	22,501,074	389,687
Millard (Mel) Phelps	22,500,074	390,687
Tay Thiam Song	22,420,886	469,875
Jeffrey Young	22,550,936	339,825

2. To ratify and approve the appointment of Deloitte & Touche LLP as the independent auditors for the Company for the fiscal year ending June 26, 2004.

<u>Votes For</u>	<u>Votes Against</u>	<u>Votes Abstained</u>
22,237,182	649,842	3,737

### Item 6. Exhibits and Reports on Form 8-K.

- a. Exhibits

<u>Exhibit Number</u>	<u>Description</u>
2.1.	Purchase Option Agreement dated as of January 28, 2003, by and between Pericom Semiconductor Corporation and SaRonix, LLC, filed as exhibit 2.1 to the Company's Form 8-K, filed October 2, 2003, and incorporated herein by reference.
2.2	Amendment No. 1 to Purchase Option Agreement dated as of March 28, 2003, by and among Pericom Semiconductor Corporation, SaRonix, LLC and Ben Healy, filed as exhibit 2.1.1. to the Company's Form 8-K, filed October 2, 2003 and incorporated herein by reference.
2.3	Amendment No. 2 to Purchase Option Agreement dated as of September 26, 2003 by and among Pericom Semiconductor Corporation and SaRonix, LLC, filed as exhibit 2.1.2 to the Company's Form 8-K, filed October 2, 2003, and incorporated herein by reference.

- 10.1\* Form of Notice of Grant of Stock Option and Option Agreement for Inducement Options filed as exhibit 10.1 to the Company's Form 10-Q for the quarter ended September 27, 2003 and incorporated herein by reference.
- 10.2 Lease, dated October 27, 2003, by and between Carramerica Realty Corporation as Landlord and Registrant as Tenant, as amended, filed as exhibit 10.2 to the Company's Form 10-Q for the quarter ended September 27, 2003 and incorporated herein by reference.
- 31.1 Certification of Alex C. Hui, Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Michael D. Craighead, Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification of Alex C. Hui, Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification of Michael D. Craighead, Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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\* Management contract or compensatory plan or arrangement.

b. Reports on Form 8-K.

- 1) On October 2, 2003 Pericom filed a report on Form 8-K that regarding the exercise of Pericom's option to acquire substantially all the assets and related liabilities of SaRonix LLC.
- 2) On October 21, 2003 Pericom filed a report on Form 8-K that was regarding the quarterly results press release issued the same day.
- 3) On December 15, 2003 Pericom filed a report on Form 8-K that was an amendment to the report on Form 8-K filed on October 2, 2003. This report included the required financial statements and pro forma financial information.

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

### Pericom Semiconductor Corporation (Registrant)

Date: February 10, 2004

By: /s/ Alex C. Hui  
Alex C. Hui  
Chief Executive Officer

Date: February 10, 2004

By: /s/ Michael D. Craighead  
Michael D. Craighead  
Chief Financial Officer  
(Chief Accounting Officer)